United Nations A/65/339

General Assembly

Distr.: General
1 September 2010
English
Original: French

Sixty-fifth session
Item 19 of the provisional agenda*
Follow-up to and implementation of the outcome of the 2002 International Conference on Financing for Development and the 2008 Review Conference

Letter dated 16 August 2010 from the representatives of France, Japan, Norway and Spain to the United Nations addressed to the Secretary-General

As you know, the General Assembly informal event on innovative sources of development finance, held on 3 June 2010, drew in a very large number of delegations and attracted considerable interest.

The event resulted from a request made by the General Assembly in its resolution 64/193 of 21 December 2009.

In the interests of ensuring that the fruitful discussions and findings of 3 June 2010 inform the work of the forthcoming General Assembly, which will take up the issue once again, we wish jointly to request you to circulate to all delegations, as a document of the General Assembly, the summary by the Chair of that event (see annex).

(*Signed*) Nicolas **de Rivière**
Chargé d'affaires a.i.
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Annex to the letter dated 16 August 2010 from the representatives of France, Japan, Norway and Spain to the United Nations addressed to the Secretary-General

Informal event on innovative sources of development finance, 3 June 2010

Summary by the Chair

Introduction

1. The United Nations General Assembly, in its resolution 64/193, recognized the potential of various voluntary innovative sources of financing to supplement traditional sources of financing, stressed that those funds should be disbursed in accordance with the priorities of developing countries and should not burden them unduly, and encouraged the Secretary-General to organize an informal event in 2010, within existing resources, on the potential of voluntary innovative sources of development finance.

2. Accordingly, the Financing for Development Office of the Department of Economic and Social Affairs of the United Nations Secretariat, in partnership with the Permanent Missions of Brazil, Chile, France, Japan, Norway, the Republic of Korea and Spain, convened the informal event on Innovative Sources of Development Finance on 3 June 2010 at United Nations Headquarters [in New York] from 10 a.m. to 1 p.m. and from 3 to 6 p.m.

3. The Deputy Secretary-General of the United Nations, Asha-Rose Migiro, opened the meeting and delivered an opening address. The full-day event was chaired by Philippe Douste-Blazy, Special Adviser to the United Nations Secretary-General on Innovative Financing for Development.

4. The main purpose of the meeting was to provide a platform for an informal interactive discussion at a high political level on the full range of issues related to promoting innovative sources of finance towards the achievement of the Millennium Development Goals by 2015. To this end, the event featured two consecutive panel discussions on (a) mechanisms of innovative development financing in operation and (b) innovative development financing initiatives under development.

5. The informal event, including panel discussions, was open for participation by representatives of all Member States, observers, relevant entities of the United Nations system and other accredited intergovernmental and non-governmental organizations, civil society and the business sector.

6. Background materials, including the concept note, tentative programme (with links to presentations) and relevant reports, have been posted on the Financing for Development website at www.un.org/esa/ffd/events/2010innovfinance/index/htm.

7. Deliberations of the meeting, including key substantive points, presentations by the panellists and the discussion among the participants, are summarized below.

Overview of key substantive points

8. The international commitment to help developing countries achieve the Millennium Development Goals by 2015 requires the mobilization of additional revenues from new and existing instruments of innovative sources of finance. There is an urgent need to take concrete and decisive steps to expand innovative financing in the run-up to the summit on the Millennium Development Goals in September 2010.

9. Such financing should be disbursed in a manner that respects the priorities of developing countries and should neither substitute nor adversely affect the level of traditional sources of development finance. There is a need to establish a monitoring mechanism to assess the impact of existing mechanisms and to identify the most cost-effective instruments.

10. Several innovative mechanisms built around public-private partnerships have provided an important supplement to available financial resources for development. Increased participation in these mechanisms would contribute to both redistribution and delivery of global public goods, for instance, through air ticket levies, carbon taxes, a tax on arms trade and a currency transactions tax.

11. The potential of raising revenue through the currency transaction tax is technically feasible without adversely affecting financial markets. The advantage of the tax/levy approach is that it can generate large, predictable and sustainable finance, while internalizing external costs and activities.

12. The International Drug Purchase Facility, UNITAID, patent pool initiative has the potential of making medicines available at a cheaper cost where they are most needed.

13. Increased long-term pledges by Governments are needed to raise money in bond markets for front-loading of financing of immunization and other GAVI Alliance programmes. This financial engineering leads to predictable and stable flows with lower borrowing costs.

14. Advance market commitments can assure researchers and pharmaceutical companies that the demand will be there once the vaccine is developed. This mechanism can, in turn, stimulate research and development of medicines and vaccines most needed by developing countries.

15. A new international convention on transparency in economic activity and, in particular, an agreement that no jurisdictions would have rules or laws that undermine the laws of other jurisdictions, would help to alleviate the problem of illicit capital flows.

16. Innovative financing in education will help to provide predictable and sustained funding, raising the profile and visibility of education, encouraging effective spending and addressing the needs of conflict-affected countries.

17. Innovative financing has focused mostly on health issues and it should be expanded to other crucial areas, including food security, environment and climate change.

18. The United Nations system has an important role to play as a catalyst for new ideas, a forum for consensus-building and an agent for implementation. It was

proposed that an expert group within the United Nations intergovernmental framework be created to explore new proposals on innovative financing mechanisms the scale of which should be significantly greater than that of existing ones.

Informal summary of the proceedings

Opening plenary

19. In her opening address, Asha-Rose Migiro, Deputy Secretary-General of the United Nations, noted the serious shortfall of traditional sources of funding in meeting long-standing aid commitments, reiterated that they remain vital and emphasized the need for closing the funding gap to achieve the Millennium Development Goals by 2015. She recalled that, since the 2002 Monterrey Conference on Financing for Development, developed and developing countries had proposed innovative financing mechanisms and successful health-related initiatives and had recognized their great potential to address a wide range of pressing development challenges. She called for the identification of the most useful and realistic proposals and moving quickly towards their implementation in cooperation with business, civil society and the world public. In order to increase the scale of innovative financing mechanisms and apply them to a broader area of development agenda, the Deputy Secretary-General stressed the need for more technical expertise and greater political efforts. According to Ms. Migiro, the United Nations system should be a catalyst for new ideas, a forum for consensus-building and an agent for implementation. Ms. Migiro called upon the participants to generate the momentum and commitment needed for additional financing mechanisms and a successful summit on the Millennium Development Goals in September 2010.

20. Philippe Douste-Blazy, Special Adviser to the Secretary-General on Innovative Financing for Development, expressed concern that, while the negative impacts of the financial and economic crisis, which had originated in the developed world, deeply affected people in developing countries, those same countries remained excluded from enjoying the benefits of globalization and the existing international trade framework. Given the projections on the decrease in official development assistance, there was a huge demand for additional resources to meet the needs related to food security, climate change and the impact of the financial crisis. He called for creating new dynamics to stimulate innovative financing for development. With only 142 days remaining before the summit on the Millennium Development Goals in September 2010, there was an urgent need to take concrete steps to expand innovative financing for development initiatives.

21. In taking stock of the progress attained through existing mechanisms, Mr. Douste-Blazy highlighted the achievements of the International Finance Facility for Immunization through the GAVI Alliance and UNITAID. In addition, he proposed to create an expert group within the United Nations intergovernmental framework to explore and identify new proposals on innovative financing mechanisms the scale of which should be significantly greater than that of existing ones.

22. To address the global solidarity dilemma without distorting the real economy, Mr. Douste-Blazy suggested focusing on mechanisms that were able to channel the wealth of the global economy on a large scale and make significant contributions to addressing the impact of the crisis. With reference to the expected benefits of the

currency transaction tax and the UNITAID patent pool initiative, he stressed that innovative financing mechanisms should represent not only additional funding but also new, targeted ways of spending.

Panel discussion 1, mechanisms of innovative development financing in operation

23. Panel discussion 1 (morning) focused on mechanisms of innovative development financing in operation and featured the following presentations: (a) Mr. Cyrille Pierre, Deputy Director for Global Economic Affairs and Development Strategy, General Directorate for Globalization, Development and Partnerships, Ministry for Foreign and European Affairs, France — "Overview of the Leading Group on Innovative Financing for Development"; (b) Edward Ross, Director, Corporate Marketing, Amadeus IT Group SA — "Voluntary solidarity contributions"; (c) David Ferreira, Managing Director for Innovative Finance; Head of Washington, D.C. Office of GAVI Alliance — "International Finance Facility for Immunization (IFFIm)"; (d) Susan McAdams, Director, Multilateral and Innovative Financing Department, World Bank — "Advance market commitments (AMC)"; and (e) Ellen 't Hoen, Senior Adviser for Intellectual Property and Medicines Patent Pool, UNITAID — "UNITAID and the patent pool initiative". Subsequently, a total of 14 delegations, including Japan (current presidency of the Leading Group on Innovative Financing for Development), Yemen (on behalf of the Group of 77 and China), the European Union (on behalf of its member States), Chile, the Bolivarian Republic of Venezuela, Gabon, the United States of America, Germany, the United Kingdom of Great Britain and Northern Ireland, Brazil, the Republic of Korea and Canada, as well as the Organization for Economic Cooperation and Development and the Sovereign Order of Malta, participated in the discussion.

Summary of the presentations by the panellists

24. Cyrille Pierre presented an overview of the activities of the Leading Group on Innovative Financing for Development. After a brief review of the steps already accomplished, he emphasized the fact that what had started as a utopia had materialized into reality as a concrete and viable mechanism of mobilizing new resources to fund development. Mr. Pierre explained how innovative financing for development had been born out of the need to fill the gap left by official development assistance flows, due to their relative unreliability, their unpredictability in the long run and their dependency on the economic situations in donor countries. He also pointed out the failures of the market economy and private capital flows to meet development needs. According to the speaker, innovative finance was a new way to mitigate official development assistance volatility, respond to market distortions in many areas, and mobilize and channel resources towards the funding of global public goods in health, environment and other critical sectors.

25. Mr. Pierre identified six categories of innovative finance on which the Leading Group focused its efforts. These included (a) the tax on global activities, such as levies on airline tickets; (b) market mechanisms, such as Germany's carbon dioxide auctioning; (c) guarantee mechanisms, such as the International Finance Facility for

Immunization; (d) voluntary contributions by citizens and businesses; (e) mechanisms related to debt management and debt swaps, such as the Debt2Health and debt-to-environment initiatives; and (f) international lottery proceeds for development. He emphasized the critical role played in those six areas, by public-private partnerships, including the joint efforts of citizens, civil society and private foundations.

26. Mr. Pierre pointed out that innovative finance was not just about taxes and that it should be taken as a complement to official development assistance, rather than as an alternative. Moreover, global taxes were not in contradiction with national jurisdictions; they could be coordinated globally but executed at the national level. According to Mr. Pierre, the proposed taxes should not be seen as anti-business instruments; there should be "smart" taxes of minimal amounts that would not distort markets. He also pointed out that innovative finance should not been seen as a hurdle to official aid coordination and stressed that the United Nations should play an important role in helping to take the work of the Leading Group to higher levels of participation and accomplishment.

27. Edward Ross spoke about his company's involvement in voluntary solidarity contributions through the "Massivegood" initiative, launched in the United States in March 2010. After highlighting the success of collecting over $1 billion for UNITAID with the airline ticket levies implemented in several countries, Mr. Ross recalled the initial involvement of Amadeus in this initiative, which had led to the company's increasing commitments, as two other major travel distributing companies had joined in. He highlighted the fact that the long-term success of "Massivegood" depended on the good perceptions of the general public, which applied to any successful consumer brand or product. For the "Massivegood" instrument to be successful, it should be "known" (by differentiating itself in a crowded market), "available" (to a critical mass of the global travel sellers), "chosen" (over other donation options) and "trusted" (by explaining where the donated money went and how it was used in a clear and consistent manner).

28. David Ferreira focused on the work of the International Finance Facility for Immunization to finance GAVI Alliance programmes. He explained that long-term pledges made by Governments were used to raise money in bond markets. From 2006 to March 2010, the Facility had raised $2.6 billion, mostly by issuing foreign currency denominated bonds in Japan, with the pledges made by nine countries, including South Africa. The Facility was recognized as an "effective, efficient and lean vehicle" to complement official development assistance flows by allowing, firstly, visible, long-range, multi-year planning and, secondly, by providing effective timing of finance by issuing bonds when needed for vaccines. Other innovative mechanisms contributing to GAVI Alliance programmes included solidarity levies, debt buy-downs, de-tax and public-private partnerships. Although the Facility's contributions had been significant in the overall funding of the GAVI Alliance, its importance was projected to diminish from 2010 onwards. Considering the GAVI funding requirement of $4.3 billion for 2010-2015, of which $1.3 billion would be funded by proceeds of the International Finance Facility for Immunization, the funding gap was estimated at $2.6 billion. To fill that gap, the GAVI Alliance should request existing donors to increase their pledges and should seek pledges from new donors or from new mechanisms. If financed sufficiently, GAVI Alliance programmes would prevent 4.2 million deaths by 2015.

29. Susan McAdams highlighted salient features of innovative financing, such as addressing specific development needs, raising additional funds through financial engineering and making efficient use of available resources. In terms of additionality, she referred to three types of sources of finance: (a) obligatory financing; (b) voluntary private financing; and (c) domestic sources of financing. With regard to achieving specific impacts, Ms. McAdams gave the example of emission reduction where developed countries supported projects in developing countries to reduce the amount of carbon dioxide emitted, including through the Clean Development Fund managed by the World Bank. Talking about the role of financial engineering in increasing efficiency of development financing, Ms. McAdams mentioned the International Finance Facility for Immunization as a mechanism for front-loading aid to address urgent needs in the health sector (immunization) that would otherwise require more resources and efforts, and to overcome the volatility and unpredictability of aid flows.

30. Ms. McAdams described the advance market commitments initiative as a financial pull mechanism which provided access to vaccines in developing countries. As in the case of the International Finance Facility for Immunization, advance market commitments were designed to support GAVI Alliance programmes. She explained how the uncertainty of demand for vaccines against certain types of diseases prevalent in the developing world would lead to a shortage in supply and higher prices. That financial pull mechanism was intended to assure researchers and pharmaceutical companies that the demand would be there once the vaccine was developed. That arrangement could, in turn, stimulate research and development of medicines and vaccines related to diseases most often found in developing countries. Using donors' pledges, advance market commitments subsidized vaccine purchase at a set price for a set period in advance. As part of a production scale-up, and in order to accelerate the introduction of needed vaccines in the world's poorest countries, developing-countries' manufacturers were also encouraged to participate in that scheme.

31. Ellen 't Hoen presented the achievements of UNITAID and a recently established patent pool initiative. She pointed out that UNITAID had provided one of the first examples of how small taxes on airline tickets implemented in six developed and developing countries could be beneficial for global health. She stated that UNITAID was not only an innovative way of resource mobilization but also of resource spending based on a true North-South collaboration. She highlighted the fact that, by disbursing more than $1 billion in the past three years, UNITAID had supplied 21 million treatments for HIV/AIDS, malaria and tuberculosis to 94 countries worldwide, including in Africa.

32. The speaker described the UNITAID patent pool initiative as a possible way to boost the availability of new and more patent-friendly medicines for people in developing countries. It required the willingness of patent holders to license their patents to the pool to be used by other entities to obtain licences to use the patents in exchange for the payment of royalties. Licence agreements could make medicines available to people in low-income and middle-income countries, where the need for more affordable and suitable medicines was widespread. That arrangement would diversify supply sources, expand generic market size and competition, facilitate the development of improved formulations for developing countries and reduce transaction costs for licensing agreements, while minimizing legal uncertainty for generic companies and patent holders. However, for that initiative to work, it was

essential to ensure collaboration between patent owners and generic manufacturers, sufficient levels of global health funding and strong political support.

Summary of the discussion

33. The representative of Japan drew attention to the limited time left before the September summit on the Millennium Development Goals. As the President of the Leading Group on Innovative Financing for Development for the second half of 2010, he expressed the interest and commitment of all Leading Group Members to the meeting and to further discussions on the subject. The speaker also highlighted the international community's increasingly strong interest in innovative financing mechanisms and the need for identifying new sources of finance for development. He stressed the importance of gaining support from a broader range of countries and suggested starting with modest schemes before expanding them further.

34. The representative of Yemen, speaking on behalf of the Group of 77 and China, welcomed the opportunity to exchange views on innovative development finance. The Group of 77 and China agreed that innovative financing mechanisms could making a positive contribution in assisting developing countries to mobilize additional resources for financing development on a stable, predictable and voluntary basis. He stressed, however, that such financing should be disbursed in a manner that was respectful of the priorities of developing countries and should neither substitute nor negatively affect the level of traditional sources of development finance. While acknowledging both the considerable progresses made in some initiatives and the importance of exploring the possibility of scaling-up present initiatives and developing new mechanisms, the speaker emphasized that priorities should remain focused on providing additional, stable and supplementary resources to traditional sources of development finance. He also underlined the potential role that innovative financing mechanisms could play in the achievement of the Millennium Development Goals and in supplementing the global partnership for development. The Group of 77 and China remained firmly committed to advancing the discussions on the subject.

35. The representative of Chile referred to the Santiago Declaration adopted by the seventh plenary meeting of the Leading Group, held in Santiago on 28 and 29 January 2010, in which the Leading Group confirmed its determination to adopt and expand innovative financing mechanisms, and reiterated its commitment to continuing its contributions towards the achievement of the Millennium Development Goals. The speaker highlighted various countries' contributions to UNITAID activities and expressed the desire that the summary of the meeting would soon become available to serve as an input to the substantive preparation for the September summit on the Millennium Development Goals.

36. The representative of the European Union, speaking on behalf of its member States, emphasized that innovative financing represented a vital addition to national resources for development and a complement to other resources. She noted that several innovative mechanisms had been built around public-private partnerships and had provided a good addition to existing resources as well as mechanisms to support development. In 2009, about one third of the European Union member States had raised funds via some form of innovative mechanisms, while most of the existing mechanisms had piloted in the European Union. After highlighting the

pioneering role played by some European Union member States and the achievements of implemented initiatives, the speaker stressed the importance of respecting aid effectiveness principles. In order to ensure accountable management and effective disbursement of proceeds of innovative finance, the most effective and representative institutional set-ups needed to be identified. Furthermore, the speaker argued, overlapping aid channels should be avoided.

37. The representative of the Bolivarian Republic of Venezuela noted that the innovative financing had focused mostly on health issues and recommended that it should be expanded to other crucial areas, including food security, environment and climate change. He called for more solidarity on poverty alleviation.

38. The representative of Gabon, while appreciating all the efforts made thus far, expressed concern about the lack of successful initiatives combating climate change and other issues relating to the environment. She stated that her Government would extend support to Mr. Douste-Blazy's proposal to establish an ad hoc group on innovative sources of finance. She also raised a question regarding the patent pool initiative.

39. In her reply, Ms. 't Hoen explained that licences from the patent pool could be obtained with the understanding that medical products would be sold only in developing countries.

40. The representative of the United States of America stated that all efforts to create new resources on a non-tax basis should be encouraged. He pointed out the lack of achievements in innovative financing initiatives in climate change and agriculture. The speaker expressed concern about proposed financial transactions taxes and argued that such taxes may distort the market, regardless of their size. He suggested making use of remittance flows to developing countries by, for example, reducing transaction costs. Highlighting grass-roots community efforts, as well as contributions made by non-governmental organizations and philanthropy to Haiti, the representative stressed that no drastic changes in the existing models and framework would be required. In his Government's view, sustaining existing models and creating an additional working group would be sufficient to address key issues.

41. The representative of Germany stated that his country had been an active member of the Leading Group and presented the two instruments initiated by his country. The first one was emission trading, which had proved to be effective and had a great potential to generate large-scale revenues for development. Under that initiative, part of the proceeds collected was used to tackle climate change issues. The speaker emphasized that, with the European Union emission trading scheme already in place, creating a new mechanism would not be required to realize its full potential. The other instrument implemented by Germany was a debt swap called Debt2Health, where developing countries could secure finance to fight against diseases, while reducing bilateral debt. He called upon all interested Governments to take part in the debt swap mechanism.

42. The representative of the United Kingdom noted that the current meeting was timely for the preparation of the Millennium Development Goal Summit. She stressed that meeting the official development assistance targets was not the only focus of attention in the Millennium Development Goal process. Highlighting her country's leading role in the International Finance Facility for Immunization and the advance market commitments, she emphasized that innovative financing

mechanisms should not be a substitute for official development assistance. However, bearing in mind that innovative finance was merely one way to finance development, she pointed out that maximizing the impact of official development assistance should remain a major priority of the international community.

43. The representative of Brazil supported the idea of creating an expert group devoted to innovative financing mechanisms in order to maximize their potential to complement official development assistance and to achieve the Millennium Development Goals. Stressing the importance of concrete proposals to move forward, he suggested that international lotteries be considered. In that regard, he gave the example of his own country, where proceeds from national lotteries were used to finance social programmes. He also argued that the intellectual property regime in its current form constituted a barrier for the development of affordable life-saving medicines.

44. The representative of the Republic of Korea highlighted his country's contributions to the implementation of airline ticket levies and the Leading Group. While praising the current international efforts in innovative financing mechanisms, he pointed out that, prior to expanding the number of initiatives, it would be necessary to establish a monitoring mechanism to assess the impacts of implemented initiatives and to identify the most cost-effective instruments. He noted some technical and legal issues at the national level that had limited the full participation of willing countries in International Finance Facility for Immunization and voluntary solidarity contributions, and asked the advice of the panellists with regard to those issues.

45. The representative of OECD argued that, as in the case of traditional sources of development assistance, innovative financing mechanisms should respect a recipient country's ownership and priorities. For example, recipient countries should be involved in the decision-making process to identify which vaccines were to be delivered. He also pointed out the need for examining the impacts of these mechanisms at the micro level (e.g. households), as opposed to the global level.

46. The representative of Canada stated that it was imperative to find new mechanisms to maximize the effectiveness of innovative sources of finance. As expressed by other delegations, he agreed that the discussions at the current meeting should feed into the September Summit preparations and that innovative financing mechanisms should be considered as a complement to official development assistance.

47. The representative of the Sovereign Order of Malta reiterated the timeliness of the meeting, as well as the high expectations with regard to the roles played by innovative financing mechanisms to achieve the health-related Millennium Development Goals. He pointed out the critical importance of securing more affordable medicines and supported the proposal to create an expert group on innovative sources of finance.

48. In responding to the points raised by delegations, Ms. McAdams underlined the importance of respecting a recipient country's ownership and policy priorities and of having a global solidarity on innovative financing mechanisms. On the growing interest in remittance flows to developing countries, she stated that such flows had the potential to be used for microfinance but they could not substitute official development assistance flows. The key questions were how to use

remittances more effectively and how to reduce their transaction costs. With regard to assistance to Haiti, Ms. McAdams was unaware of the role played by innovative mechanisms. However, in the case of tsunami aid efforts, she noted that the considerable volume of charitable contributions was highly correlated with media coverage. Regardless of the methods of fund-raising, she stressed that large flows of contributions should not be wasted.

49. Mr. Ferreira reiterated the long-term visibility of the International Finance Facility for Immunization and its ability to raise money in bond markets. He further stressed that the Facility had a solid AAA credit rating, which translated into lower costs of borrowing (owing to the sovereign guarantee). He shared the view about the importance of sustainable grass-roots involvement, which would serve to create a virtuous cycle of understanding and commitment for development. He also reiterated the willingness of the GAVI Alliance to continue to work together with the private sector and civil society.

50. In response to the concern expressed by the representative of the United States, Mr. Pierre stressed that the current economic situation in many donor countries was likely to leave less room for development finance. He argued that a global financial transactions tax was a new global reality and that necessary action should be taken now, rather than later. While acknowledging that no tax was perfect, he explained how the airline tickets levy introduced in France had worked without curbing the demand. He agreed that innovative mechanisms should be expanded to wider areas of development agenda beyond health.

Panel discussion 2, innovative development financing initiatives under development

51. Panel discussion 2 (afternoon) addressed innovative development financing initiatives under development and featured the following presentations: (a) Håkon Gulbrandsen, Senior Adviser for International Development, Ministry of Foreign Affairs, Norway — "The role of innovative finance in promoting sustainable financial flows for development"; (b) Raymond W. Baker, Director, Global Financial Integrity, and Leader, Task Force on Financial Integrity and Economic Development — "International tax cooperation"; (c) Takehiko Uemura, Associate Professor, Yokohama City University, and member, High-level Task Force on International Financial Transactions for Development — "Options and feasibility of carbon/environmental taxes and financial transactions/currency exchange taxes"; and (d) Susan Durston, Associate Director, Education Programme Division, United Nations Children's Fund — "Innovative financing for education". Following presentations by the panellists, eight delegations (Brazil, United States, France, OECD, European Union, Bolivarian Republic of Venezuela, Japan and Bangladesh) participated in the discussion.

Summary of the presentations by the panellists

52. Håkon Gulbrandsen spoke about the role of innovative finance in promoting sustainable financial flows for development. With respect to capital inflows to developing countries, he argued that official development assistance was not as important as one was led to believe. He showed a graph based on the World Bank,

United Nations Conference on Trade and Development and OECD estimates, where, on the one hand, remittances ($240 billion) accounted for more than double the official development assistance ($104 billion) and foreign direct investment ($500 billion) accounted for around five times the amount of official development assistance. On the other hand, he said that illicit capital outflows from developing countries were enormous at around $750 billion, a figure which undermined development.

53. The breakdown of illicit flows was estimated as follows: 5 per cent corruption (bribery and embezzlement of national wealth); 31 per cent crime (organized crime); and 64 per cent commercial activities (tax evasion). The speaker argued that the underlying reason was the lack of transparency in the international financial system. Proper regulation must be introduced so that banks knew their customers better. Mr. Gulbrandsen felt that there was a need for a new international convention on transparency in economic activity and, in particular, an agreement that no jurisdictions would have rules or laws that undermined the laws of other jurisdictions.

54. With regard to financial transactions taxes, Mr. Gulbrandsen expressed the view that it was a realistic proposal, since a small tax could generate a substantial amount of funds for development. He also mentioned that the Government of Norway favoured global taxes that would limit the negative impacts of globalization and create mechanisms for global redistribution. Norway would support innovative sources of finance that could contribute to global public goods, for instance, through airline ticket levies, carbon taxes, tax on the trade in arms, and a tax on currency transactions. Mr. Gulbrandsen also pointed out that the Government of Norway sought to ensure policy coherence on capital and development.

55. Raymond Baker focused on international tax cooperation. In particular, he called for international cooperation to address the issue of illicit financial flows and to seek global transparency in financial transactions. He stressed that illicit financial outflows from developing countries far exceeded the inflows of official development assistance and argued that the amount of such outflows was underestimated, given the large size of what he termed the "global shadow financial system". Among other things, that shadow system included tax havens, off-shore secrecy jurisdictions, flee clauses, disguised corporations, anonymous trusts and foundations, money-laundering techniques, and loopholes left in the laws of developed countries. As a result, it allowed for illegal transfer of earnings by corporations, the drug trade and commercial tax evasion through the wrongful pricing of trade.

56. According to Mr. Baker, the sheer size of those illicit financial flows implied that a huge amount of tax revenue was lost by developing countries, due to non-collection or under-collection of taxes, with severe implications for poverty and inequality in the developing world. He appealed for effective policies to address the global financial shadow system. As a first step, the speaker called upon developed countries to recognize their role in facilitating the shadow system through various loopholes in their laws that needed to be urgently reviewed and amended. He expressed the view that acknowledging the link between illicit flows of money and development was an essential step towards a more just economic order.

57. Takehiko Uemura discussed different approaches to innovative financing for the environment. These included various global environment taxes or levies, such as

the proposed global carbon dioxide levy or a currency transactions environment levy. Other approaches were auctioning assigned amount units or establishing a multilateral climate change fund. He pointed out that the advantage of the global tax/levy approach was that it could generate large, predictable and sustainable finance, while internalizing external costs and activities. Mr. Uemura also recalled that, in October 2009, the Leading Group established a Task Force on International Financial Transactions for Development and that its forthcoming report would address the technical feasibility and options of global financial transactions taxes.

58. Mr. Uemura then proceeded to discuss policy developments in Japan. In that regard, he referred to the establishment of the Japanese Commission for the Promotion of International Solidarity Levies, the objective which was to develop a realistic plan to realize international solidarity levies and especially a currency transactions levy. The Commission had produced an interim report, which had been submitted to the Minister of Finance and the Minister for Foreign Affairs. Mr. Uemura gave highlights of the report, in which it was recommended to the Japanese Government that it implement the currency transactions levy as soon as possible and to use the revenue for achieving the Millennium Development Goals. The Commission, among other things, had also requested the Japanese Government to legislate international solidarity levies and proposed to introduce an air-ticket solidarity levy as a first step.

59. Susan Durston spoke on the issue of innovative financing for education. Illustrating the magnitude of the problem, she stated that 72 million children of primary school age were out of school, of which 54 per cent were girls and 25 million lived in low-income countries affected by conflict. Hence, innovative financing for education would help to address the situation through providing predictable and sustained funding, raising the profile and visibility of education, encouraging effective spending and addressing the needs of conflict-affected countries. Ms. Durston referred to the creation of a task force on education within the Leading Group, which was expected to finalize its report by the end of July 2010. Ideas on education-specific resource mobilization included a soccer Federation of International Football Associations levy; teachers for education for all fund; public-private partnerships; diaspora bonds for education; and an endowment fund funded by sovereign wealth funds.

60. Ms. Durston also highlighted some of the challenges in this area, including the need for pro-poor proposals and the importance of targeting low-performance regions, schools and individuals. Options that may be considered included abolishing school fees and removing cost barriers, strengthening the supply-side of the schooling system and ensuring high quality across the system, with a focus on the marginalized. She suggested a number of mechanisms for ensuring the necessary reforms, including those providing innovative delivery, such as phone banking for teachers, and decentralized modalities, such as school grants. According to Ms. Durston, the necessary reforms should centre on core principles, such as country ownership, limiting new transaction costs and ensuring that funds were linked to results.

Summary of the discussion

61. The representative of Brazil noted that there were many challenges ahead and that the Leading Group on Innovative Financing for Development had contributed many ideas. However, there was a need for greater involvement of the United Nations, as well as for mainstreaming innovative financing issues. Highlighting the issue of illicit capital flows, he expressed support for the proposal to establish an intergovernmental commission on international cooperation in tax matters. In that connection, he enquired about the latest developments in fostering international cooperation to curb illicit capital flows and the role of the United Nations.

62. The representative of the United States noted that his Government had been making efforts to stop illegal capital flows in particular. He expressed his delegation's concern regarding international taxes, even at low rates, since that could distort international trade and production and could even help to boost tax havens. He asked Mr. Uemura for clarification of the panellist's statement that the currency transactions development levy would have no distortion of market owing to the low tax rate (0.005 per cent) and whether that tax could be introduced in just one country or currency.

63. In response, Mr. Uemura pointed out that the cost to the financial sector could be passed on to all players in the financial markets who benefited from globalization. He added that, ideally, all countries should introduce the tax at the same time, but that it was possible to do it in one country or one currency.

64. Mr. Douste-Blazy noted that the currency transactions levy should be internationally coordinated because if done unilaterally, it could have a negative impact in terms of reduction of transactions in the currency on which it was imposed.

65. Mr. Uemura was of the view that the reduction in transactions would be largely a reduction in speculative transactions.

66. The representative of France stressed the importance of synchronizing actions on innovative sources of development finance at the three levels: the United Nations, the Leading Group and the operators. The United Nations should promote policy coherence. In the future, consideration should be given to the extent and scale of those initiatives. He pointed out that the financial transaction tax, while controversial, should not be a taboo subject and that it should be discussed first at a technical level and then at a political level.

67. The representative of OECD noted that, with respect to illicit transfers, work had to be done both on the supply side and on the demand side. He added that the transfer of such funds should be made more difficult and that there should be a way to identify the movement of illegal funds. He asked whether the right instruments to cope with those problems were available and if so, what had to be done to strengthen them.

68. In response to OECD, Mr. Gulbrandsen said that all the instruments were available but not yet at the level that they should be. However, there had been a gradual improvement in that respect. There was also a need for pilot projects, such as the one being carried out by the African Tax Administration Forum regarding automatic exchange of tax information, but many more pilots in different areas were needed. Very important, too, was the political will to advance.

69. The representative of the European Union emphasized that global coordination was essential for the successful implementation of most instruments and that the participation of all relevant key players was vital. According to a recent European Commission document, there were some instruments whereby a significant "double dividend" of both raising revenue and improving market efficiency could be reaped, in particular, by ways of taxing the financial sector or carbon emissions. While there might be limited willingness to earmark all or part of the revenues from taxing financial institutions for development, it should be taken into consideration that such revenues would enhance the budgetary room for manoeuvre to preserve stable and predictable development aid, notably in the event of new financial crises. Regarding climate change, the European Commission document highlighted the fact that the more promising options related to the pricing of carbon emissions, which could create a "double dividend" of raising revenues and improving the efficiency of markets. The international commitments to help developing countries achieve the Millennium Development Goals might also require the use of revenues from new and existing instruments of innovative sources of finance.

70. The representative of the Bolivarian Republic of Venezuela emphasized the importance of financial transaction taxes in curbing speculation.

71. The representative of Japan emphasized that the issue of innovative sources of finance was still being studied by his Government and that the issue was who would pay and whether the suggested measures would elicit the support of the general public and taxpayers. Given the difficult economic situation, there had already been difficulty in obtaining public support for official development assistance and other disbursements for development. The representative asked Mr. Uemura whether it would be easier to persuade the public with regard to these types of initiatives or about official development assistance.

72. Mr. Uemura said that the expert group favoured a financial transaction tax over a value-added tax, since the first was a global tax and funds could be easily transferred. He added that those measures would not be for poor countries to take, but rather for the global rich and those who played in the global markets. Thus, those levies should be viewed as a global public goods fee.

73. Mr. Gulbrandsen indicated that the financial transaction tax of 0.005 per cent was too low to be felt by the public and that its support could be gained if it was explained that it would solve deep-set problems.

74. The representative of Bangladesh asked about the status of taxes on transactions in stock exchanges, since that tax had already been in place in 32 countries, including Brazil.

75. The representative of Brazil explained that his country had had, until recently, a financial transaction tax on checking accounts. At present, there was a tax on inflows of foreign capital for the financial and stock market transactions — but not for foreign direct investment — to combat speculative flows.

76. In closing, Mr. Gulbrandsen said that one of the reasons that illicit capital outflows were so much higher than official development assistance was the lack of financial transparency, which needed to be urgently addressed. Mr. Uemura referred to the funding gap, estimated at $225 billion a year, in meeting development needs and expressed the view that it would be better to pay now than to wait, since the cost could be a lot higher in the future. Ms. Durston stressed that innovative financing should not apply just to health, but could be put to good use in the area of education.

Closing of the meeting

77. The meeting concluded with closing remarks by Mr. Douste-Blazy, who explained that innovative financing was not just about new taxes, but rather, was based on voluntary solidarity contributions as a complement to official development assistance. He highlighted the role of the private sector, referring to the advance market commitments and the recent launch of the Massivegood initiative. He stressed that the success of UNITAID and the GAVI Alliance in supporting the health-related Millennium Development Goals was due to effective public-private partnerships and in that regard, emphasized the importance of the new patent pool initiative. In addition, he underscored the need to combat illicit capital flows from developing countries and the role of civil society in enhancing accountability and transparency in this area. He concluded that a United Nations-based expert group should explore current proposals, including financial transactions and environmental taxes in support of the Millennium Development Goals as well as new challenges and emerging issues such as climate change mitigation and adaptation.